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SUBJECT: YEMEN'S ECONOMY: THINKING BEYOND OIL

Classified By: Political/Economic Officer Jill E. Hutchings, for reasons 1.5 B. and D.

11. (C) Summary: A forthcoming World Bank sectoral analysis of fish, transportation, tourism and labor markets is a potential road map for donor projects and steps that the ROYG must take in order to diversify and strengthen Yemen's economy. The Diagnostic Trade Integration Study examines four potential sources of revenue that could make up the difference of a projected 30% loss to GDP when oil reserves run dry in the next twenty years. End Summary.

12. (C) The Integrated Framework Program of the World Bank will present to the Ministry of Industry and Trade this month a Diagnostic Trade Integration Study on four sectors of the Yemeni economy: fisheries, transportation, tourism and labor. The following is a summary of the report's major findings on the four sectors with information about under-reported aspects of the Yemeni economy.

FISHERIES

13. (C) The fishing industry is the second largest export for the ROYG behind oil, employing 42,000 people and supporting 250,000 dependents. In 2001, the ROYG earned \$70 million in revenue from the export of fish, contributing 2% to GDP. While there are several prospects for expanding this market, the report warns against rapid expansion that would deplete fish stocks.

14. (C) According to the study, Yemeni fish exports are unable to receive adequate prices in foreign markets because fishermen are unable to maintain the quality of their product. Inadequate storage on boats, transport delays, and poor quality control all contribute to a decline in the price exporters receive for Yemeni fish. The most pointed example of this problem is the fact that most of the fish bound for European markets is shipped out of Sanaa, a four to six hour drive from most ports. Once in Sanaa, exporters rely on Yemenia Airlines, whose flight schedule is unreliable and ill-equipped to ship large stocks of frozen fish. In response, the World Bank is investing in a project to upgrade al-Rayyan airport near Mukallah to allow for more direct shipment routes from Yemen.

15. (C) The report also encourages the ROYG to establish a Fisheries Council to effectively monitor fish resources because, according to the World Bank, the Ministry of Fisheries is not adequately staffed or resourced to handle its required role. The ROYG is considering, and the Bank recommends, privatization of the General Corporation for Fish Services and Marketing (CFC), that manages landing slips and fish auctions, as a way to raise the standards of quality control and fish processing.

Transportation

16. (C) Yemen has one of the lowest percentages of paved roads in the World (comparable to Niger and Rwanda); therefore enhancement of the transport sector is vital to broader economic development. The sectoral analysis also notes that 80% of the Yemeni population live in isolated, rural communities and that road injuries cost the ROYG 1-3% of GDP. According to the report, women are not attending school and entering the workforce because the existing public transportation is not considered appropriate for their use.

17. (C) The chapter on transportation also strongly recommends that the ROYG improve port management. Such improvements are necessary because there is increasing competition for the Port of Aden. The port managers of Jebel Ali in Dubai are beginning to invest heavily in Djibouti, adding more competition for the Port of Aden, which has been already seen much of its traffic move to Jeddah and Sallalah after the October 2002 attack on the French tanker Limburg.

Tourism

18. (C) Tourism in Yemen has vast potential and many hurdles,

including inadequate hotels, few flights from European markets, and fears about security. Nevertheless the sector may still become a significant contribution to the Yemeni economy. The tourism sectoral analysis states that in 2001, tourism accounted for 1.7% of GDP and employed 14,000 people.

After September 11, 2001, tourism decreased by 80%. The biggest area identified for growth was adventure tourism. The World Bank recommends increased investment in and improvement of rest houses (hotels aimed at tourists) in tourism regions, and encouraging conservation efforts which could in turn attract more tourists.

Labor

¶9. (C) In 2001, remittances from foreign workers amounted to 1.2 billion USD, bringing in more foreign currency than oil revenues. In 1999, for example, the report states that oil revenue was 967 million USD. The importance of remittances is compounded by high domestic unemployment. The 2000 five year plan by the ROYG estimated that unemployment was around 25%, and the Yemen Center for Studies and Research estimates that unemployment in 2000 was about 50.3 % of the labor force. (Note: The ROYG's Poverty Reduction Strategy Paper states that the unemployment rate is about 11.5% of the labor force.) Comment: Despite large statistical discrepancies, clearly unemployment is a huge challenge for the ROYG. End Comment.

¶10. (C) Female employment, however, continues to grow at a rate of about ten percent a year. In 2000, there were nearly one million females employed in Yemen. The number of female graduates also increased by 189% in ten years with 3,759 female graduates in 2,000. The number of women registered at universities increased by 153% in ten years to 34,994 in ¶2000.

¶11. (C) According to the report, Yemen's continued population growth will greatly impact its prospects for continued economic development. In 2001, 7.8 million (50%) of the population were of working age; by 2016, 16.5 million people will be of working age. The World Bank study recommends that for the ROYG to find jobs for a doubled work force, it must improve its foreign direct investment climate. Furthermore, the study encourages the ROYG to expand agreements with other countries to increase the number of Yemeni guest workers employed in other countries.

Comment

¶12. (C) Comment: The Diagnostic Trade Integration Study prepared by the World Bank for the Ministry of Industry and Trade does not explicitly state that its goal is to find non-oil revenue sources. However, economists are well aware that barring any new discoveries, there is less than twenty more years of oil output for Yemen. Planning has clearly begun by donor agencies and the Ministry of Industry and Trade to find new sources of revenue to compensate for the expected loss of oil revenue, which presently accounts for 32% of Yemen's GDP. This report has already served as the basis for some of Posts' planning on how to prioritize future development assistance. Our contacts at the World Bank have asked that we keep the analysis confidential until its release at the end of April. End Comment.

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